

SRI SURGICAL EXPRESS INC
Form DEF 14A
April 04, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No. __)

Filed by the Registrant "

Filed by a Party other than the Registrant "

Check the appropriate box:

" Preliminary Proxy Statement

" **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

" Definitive Additional Materials

" Soliciting Material Pursuant to §240.14a-12

SRI/SURGICAL EXPRESS Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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.. Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

SRI/SURGICAL EXPRESS, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 22, 2008

Dear Shareholder:

The Annual Meeting of Shareholders of SRI/Surgical Express, Inc. will be held on Thursday, May 22, 2008, at 10:00 a.m., local time, at our corporate headquarters located at 12425 Race Track Road, Tampa, Florida 33626, for the following purposes:

1. To elect three directors to serve until the 2011 Annual Meeting and to hold office until their successors are duly elected and qualified;
2. To ratify the appointment of Grant Thornton LLP as our independent auditors for the fiscal year ending on December 28, 2008; and
3. To transact other business that properly comes before the Annual Meeting or any adjournment of the meeting.

We more fully describe these items of business in the Proxy Statement accompanying this Notice.

All shareholders are cordially invited to attend the Annual Meeting in person. To ensure your representation at the Annual Meeting, we urge you to sign and return the enclosed proxy as promptly as possible in the postage-prepaid envelope enclosed for that purpose. Any shareholder attending the Annual Meeting may vote in person, even if he or she has returned a proxy.

For further information about the Annual Meeting, including directions to our corporate headquarters to attend the meeting and vote in person, please contact Iris Gantz at (813) 891-9550 or igantz@srisurgical.com.

By Authorization of the Board of Directors,

Wallace D. Ruiz
Secretary and Chief Financial Officer

Tampa, Florida

April 4, 2008

Important: Whether or not you plan to attend the Annual Meeting, you are requested to complete and promptly return the enclosed proxy in the envelope provided.

SRI/SURGICAL EXPRESS, INC.

PROXY STATEMENT

FOR

2008 ANNUAL MEETING OF SHAREHOLDERS

GENERAL INFORMATION

The enclosed proxy is solicited by the Board of Directors of SRI/Surgical Express, Inc. (the Board of Directors or the Board) for use at the Annual Meeting of Shareholders to be held on Thursday, May 22, 2008, at 10:00 a.m., local time, and at any adjournment of the meeting, for the purposes set forth in this Proxy Statement and in the accompanying Notice of Annual Meeting of Shareholders. The Annual Meeting will be held at our corporate and principal executive offices located at 12425 Race Track Road, Tampa, Florida 33626. Our telephone number at our executive offices is (813) 891-9550.

These proxy solicitation materials, together with our 2007 Annual Report to Shareholders on Form 10-K filed with the Securities and Exchange Commission on March 26, 2008 (the Annual Report), were first mailed on or about April 4, 2008, to all shareholders entitled to vote at the Annual Meeting. In this Proxy Statement, the terms SRI, the Company, we, us and our refer to SRI/Surgical Express, Inc.

Record Date

Only shareholders of record at the close of business on March 13, 2008 (the Record Date) are entitled to notice of and to vote at the Annual Meeting. We have one class of outstanding voting securities, our common stock. As of the Record Date, 6,470,978 shares of our common stock were outstanding. For information regarding security ownership by management and by the beneficial owners of 5.0% or more of our common stock, see Security Ownership of Directors, Officers, and Principal Shareholders below.

Revocability of Proxies

You may revoke any proxy given pursuant to this solicitation at any time before its use at the Annual Meeting by delivering to the Secretary of the Company a written notice of revocation or a duly executed proxy bearing a later date or by attending the Annual Meeting and voting in person.

Voting

Each shareholder is entitled to one vote for each share of common stock on all matters presented at the Annual Meeting. The holders of common stock will vote together as one group in the election of directors and other matters presented at the Annual Meeting. Shareholders do not have the right to cumulate their votes in the election of directors.

Solicitation

We will bear the entire cost of solicitation, including the preparation, assembly, printing, and mailing of this Proxy Statement. In addition, we may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to beneficial owners. Certain of our directors, officers, and other employees, without additional compensation, may also solicit proxies personally or by telephone, telegram, letter or facsimile.

Quorum; Abstentions; Broker Non-Votes

A majority of the shares of our common stock entitled to vote on a matter, represented in person or by proxy, will constitute a quorum for action on a matter at the Annual Meeting. We count shares that reflect

withheld votes, abstentions or broker non-votes (i.e., shares held by a broker or nominee that are represented at the Annual Meeting, but with respect to which such broker or nominee is not empowered to vote on a particular proposal) as shares that are present for purposes of determining the presence of a quorum, but not in determining the number of shares voted for or against any nominee for election as a director or any other proposal. For Proposal No. 1, the three director nominees receiving the highest number of affirmative votes cast will be elected as directors. Proposal No. 2 requires that the number of votes cast in favor of the proposal exceed the number of votes cast against the proposal. Withheld votes, abstentions and broker non-votes will not be counted as votes cast for purposes of determining whether the proposal has received sufficient votes for approval, and therefore will have no effect on the outcome of the vote.

Fiscal Year End

The Company's fiscal year ends on the Sunday nearest December 31.

Communications with Directors

You may communicate with any of our directors or with all directors as a group by sending communications by regular mail to: SRI/Surgical Express, Inc., c/o Chairman of the Board of Directors, 12425 Race Track Road, Tampa, Florida 33626.

Communications are distributed to the Board of Directors, or to any individual director or directors as appropriate, depending on the content of the communication. Members of our Board of Directors have requested that certain items that are unrelated to their duties and responsibilities be excluded, such as spam, junk mail and mass mailings, product or service complaints, resumés and other forms of job inquiries, and business solicitations or advertisements. In addition, material that is unduly hostile, threatening, illegal or similarly unsuitable will be excluded, with the provision that any excluded communication will be made available to any outside director upon request. The procedures regarding distribution of shareholder communications to the Board of Directors have been approved by a majority of independent directors.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Our Board of Directors has fixed the number of directors at seven pursuant to our bylaws. As described below, three directors are being renominated for new terms because their current terms expire on the date of the Annual Meeting and four directors will continue to serve after the Annual Meeting.

Nominees for Election at the 2008 Annual Meeting

Members of our Board of Directors serve staggered three-year terms expiring at the third Annual Meeting of Shareholders after their election. At the 2008 Annual Meeting, we will be electing three directors to serve a term of three years through our 2011 Annual Meeting. Our Board of Directors has authorized the nomination of the persons as candidates named in this Proxy Statement. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the three nominees named below, all of whom are presently directors. In the event that any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who shall be designated by the current Board of Directors to fill the vacancy. We do not expect that any nominee will be unable or will decline to serve as a director. The term of office of each person elected as a director will continue until a successor has been elected and qualified.

James M. Emanuel and Charles W. Federico are being renominated for new terms as directors because their current terms expire on the date of the Annual Meeting. On December 31, 2007, the Board of Directors elected

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Gerald Woodard, our Chief Executive Officer, as a director to fill the vacancy resulting from the resignation in February 2007 of Christopher Carlton, whose term would have expired on the date of the Annual Meeting. As a result, Mr. Woodard's current term also expires on the date of the Annual Meeting. Certain information with respect to our nominees for election as director appears below:

| Name | Age | Principal Occupation | New Term Expires |
|---------------------|-----|--------------------------------|------------------|
| James M. Emanuel | 59 | Private Investor | 2011 |
| Charles W. Federico | 59 | Private Investor | 2011 |
| Gerald Woodard | 61 | Chief Executive Officer of SRI | 2011 |

James M. Emanuel has been a director since May 2, 1996. Between January 1984 and June 1997, he served as the Chief Financial Officer of Lincare, Inc., a national provider of respiratory therapy services for patients with pulmonary disorders. He also served as the Chief Financial Officer and a director of Lincare Holdings, Inc. between November 1990 and June 1997. Mr. Emanuel also serves as a director of Anesthetix Holdings, LLC, a privately held company. Mr. Emanuel has engaged in consulting and private investment activities since his retirement from Lincare Holdings, Inc. in June 1997.

Charles W. Federico has been a director since June 27, 2006, when he was elected to fill a vacancy on the Board of Directors, and has been Chairman of the Board of Directors since May 24, 2007. Mr. Federico is a director of Orthofix N.V., and most recently served as its Group President and Chief Executive Officer. He served with Orthofix and its affiliates since 1996. Prior to joining Orthofix, Mr. Federico was with Smith & Nephew Endoscopy for 16 years, where he served most recently as its President. Mr. Federico also currently serves on the Board of Trustees of the Orthopaedic Research and Education Foundation, and previously was a Founding Trustee and board member of the American Sports Medicine Institute.

Gerald Woodard has been a director and our Chief Executive Officer since December 31, 2007. Mr. Woodard has served in executive and management positions with healthcare companies since 1986. Prior to joining SRI, Mr. Woodard served as the President of the Linvatec subsidiary of ConMed Corporation since 2000. ConMed Linvatec is a supplier of orthopedic and sports medicine products, endoscopic imaging systems, and various operating room and critical care products. From 1998 to 2000, Mr. Woodard was President of the Elekta Holdings subsidiary of Elekta AB, a manufacturer of stereotactic radiosurgery systems and radiation therapy systems. From 1994 to 1998, Mr. Woodard worked with Marquette Medical Systems, Inc., where he most recently was President of its Monitoring and Information Systems Division.

Required Vote

The three nominees receiving the highest number of affirmative votes of the shares of common stock present or represented and entitled to be voted for them shall be elected as directors. Votes withheld from any director, abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business, but have no further legal effect under Florida law.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE NOMINEES LISTED ABOVE.

Directors with Terms Continuing After the 2008 Annual Meeting

The directors who will continue to serve after the Annual Meeting are set forth below:

| Name | Age | Principal Occupation | Term Expires |
|----------------------|------------|--|---------------------|
| Directors | | | |
| James T. Boosales | 64 | Private Investor | 2009 |
| Charles T. Orsatti | 64 | Managing Partner, Fairfield Capital Partners, Inc. | 2009 |
| Wayne R. Peterson | 56 | Private Investor | 2010 |
| N. John Simmons, Jr. | 52 | President, Quantum Capital Partners, Inc. | 2010 |

James T. Boosales served as our Executive Vice President and Chief Financial Officer from 1994 until August 2002, and as our Executive Vice President until he retired on December 31, 2002. He has been a director since our inception in 1994, and served as a consultant to us from the date of his retirement through December 31, 2003. He served as President, International, of Fisher-Price, Inc., a \$200 million division of the toy and juvenile products company, from 1990 through 1993. Before joining Fisher-Price, Inc., Mr. Boosales served in several senior executive capacities with General Mills, Inc., including President, International, for Kenner Parker Toys, Inc./Tonka Corp. from 1985 to 1989, during and after its spin-off as a public company, and President of Foot-Joy, Inc. from 1982 to 1985. Mr. Boosales now engages in private investment activities.

Charles T. Orsatti has been a director since February 10, 2004. Mr. Orsatti also served as a director of djOrthopedics, Inc., an NYSE-listed orthopedic sports medicine company, until November 2007. Since 1995, Mr. Orsatti has been Chairman and Managing Partner of Fairfield Capital Partners, Inc., a private equity investment firm. Prior to 1995, Mr. Orsatti was Chairman and Chief Executive Officer of Fairfield Medical Products Corporation, a manufacturer of critical care products. From 1983 to 1986, he was Chief Executive Officer of Coloplast, Inc., a manufacturer of single use products and then served as Chief Operating Officer and President of two medical divisions of British Oxygen Corporation. Mr. Orsatti began his career with the medical products division of Air Products and Chemicals, Inc. and subsequently worked for the Critikon Division of Johnson & Johnson.

Wayne R. Peterson served as our Executive Vice President from 1994 and our Chief Operating Officer from May 2001, in each case until his retirement on December 31, 2002. Mr. Peterson has been a director since 1994 and served as a consultant to us from January 1, 2003 until December 31, 2003, and from March 2006 until the present. In 1991, Mr. Peterson co-founded our predecessor, Amsco Sterile Recoveries, Inc., and served as Vice President until we acquired Amsco Sterile Recoveries in 1994. Before joining Amsco Sterile Recoveries, Mr. Peterson was President of Agora Development, Inc., a real estate development company. He now engages in private investment activities.

N. John Simmons, Jr. has been a director since February 2001 and served as Chairman of the Board of Directors from August 2002 through May 2007. Since July 2005, Mr. Simmons has been a director and Audit Committee Chair for Medquist, Inc., a publicly traded medical transcription company. From November 2004 until April 2006, Mr. Simmons was the President of New Homes Realty, a Florida-based residential real estate company operating in 35 states. Since December 1998, Mr. Simmons has been President of Quantum Capital Partners, a privately held venture capital firm. From 1995 to 1998, he was Vice President and Controller for Eckerd Corporation. From 1993 to 1995, he served as Chief Financial Officer of Checkers Drive-In Restaurants. Between 1985 and 1993, Mr. Simmons was a partner with KPMG Peat Marwick, serving a number of privately and publicly held companies in the Tampa Bay area.

Executive Officers

| Name | Age | Principal Position(s) |
|---------------------------|-----|--|
| Executive Officers | | |
| Gerald Woodard | 61 | Chief Executive Officer |
| Wallace D. Ruiz | 56 | Senior Vice President, Chief Financial Officer and Secretary |
| David J. McGuire | 42 | Senior Vice President of Sales |

Gerald Woodard has been a director and our Chief Executive Officer since December 31, 2007. His business experience is described above see Nominees for Election at the 2008 Annual Meeting .

Wallace D. Ruiz joined us in July 2005 as Senior Vice President, Chief Financial Officer and Secretary. Before joining us, Mr. Ruiz was the Vice President, Chief Financial Officer and Treasurer of Novadigm, Inc., a developer and worldwide marketer of enterprise software, which he joined in 1995. Mr. Ruiz is a certified public accountant.

David J. McGuire has been an employee of SRI since its incorporation in September 1994. He served as our Senior Vice President of Strategic Sourcing from January 2006 until March 2008. Prior to January 2006, Mr. McGuire served in various sales and operational positions at SRI, including as the general manager of our largest reprocessing facility.

CORPORATE GOVERNANCE

General Information About the Board of Directors and Corporate Governance

Our policies and practices comply with existing listing standards of The NASDAQ Stock Market LLC (NASDAQ) and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

Our Board of Directors has determined that five of our seven directors are independent under the listing standards of NASDAQ as of the date of this Proxy Statement, and six of seven of our directors are non-employee directors;

The non-employee members of our Board of Directors meet regularly without the presence of management;

Our Board of Directors has a standing Compensation Committee, Audit Committee, and Nominating and Governance Committee;

Our Board of Directors has determined that each member of the Compensation Committee, the Audit Committee and the Nominating and Governance Committee is independent under the listing standards of NASDAQ;

The Audit Committee meets with management and the auditors to receive information concerning the design and operation of internal controls;

Grant Thornton LLP, our independent accounting firm, reports directly to the Audit Committee; and

On the recommendation of the Audit Committee, our Board of Directors has adopted an Amended and Restated Code of Business Conduct and Ethics for our directors, officers and employees, and a compliance policy to allow for confidential and anonymous reporting of suspected or known violations of these policies.

Our Board of Directors has adopted written charters for its Audit Committee, Compensation Committee, and Nominating and Governance Committee that clearly establish their respective roles and responsibilities. Each charter provides that the respective committee is authorized to obtain advice and independently seek assistance from outside advisors.

We maintain a corporate governance page on our website, which includes key information about our corporate governance practices, including the charters for the Audit Committee, Compensation Committee, and Nominating and Governance Committee, as well as our Amended and Restated Code of Business Conduct and Ethics. The corporate governance page can be found at <http://www.srisurgical.com> by clicking on About Us, Investors then Corporate Governance.

Board Independence

Our Board of Directors has determined that Messrs. Boosales, Emanuel, Federico, Orsatti and Simmons are independent under the listing standards of NASDAQ. The Audit Committee, Compensation Committee and Nominating and Governance Committee are each comprised solely of our independent directors. Mr. Peterson is not independent based on his service as a consultant to the Company. Mr. Woodard is not independent based on his service as our Chief Executive Officer. In making its independence determinations, our Board of Directors reviewed transactions and relationships between the director or any member of his immediate family and us or one of our subsidiaries or affiliates based on information provided by the director, Company records and publicly available information. In addition, our Board of Directors considered the following types of relationships and transactions: (i) principal employment positions and other public company directorships held by each director; (ii) contracts or arrangements that are ongoing or which existed during any of the past three fiscal years between us and/or our affiliates and any entity for which the non-employee director or his or her immediate family member is an executive officer or ten percent or more shareholder; and (iii) contracts or arrangements that are ongoing or which existed during any of the past three fiscal years between us and/or our affiliates and any other public company for which the director serves as a director.

Board Meetings and Committees of the Board

Our Board of Directors held six meetings, including regularly scheduled and special meetings, during 2007. During 2007, no director attended fewer than 75% of the meetings of the Board of Directors or fewer than 75% of the meetings of any committee of the Board of which he was a member. We invite our Board of Directors to our Annual Meeting of Shareholders, but do not require them to attend. Last year, all of the directors except Charles W. Federico, attended our 2007 Annual Meeting. Our Board of Directors has a standing Audit Committee, Compensation Committee, and Nominating and Governance Committee.

Compensation Committee. The Compensation Committee, which currently consists of Messrs. Boosales (chair), Federico, and Orsatti, assists our Board of Directors in making decisions regarding specific compensation plans, salaries, bonuses, and other benefits payable to our executive officers. The Board of Directors has determined that each member of the Compensation Committee is independent under the listing standards of NASDAQ. The Compensation Committee held four meetings during 2007.

The processes and procedures for the consideration and determination of executive compensation are as follows:

The Compensation Committee determines cash compensation for our executive officers with the benefit of a review by our Board of Directors and input from the Chief Executive Officer regarding compensation of other executive officers.

Our Board of Directors approves equity awards for our executive officers with the benefit of recommendations from the Compensation Committee.

Historically, our Board of Directors has not retained compensation consultants. In establishing compensation for newly engaged executives, our Board of Directors considers recommendations of the Compensation Committee and the executive search firms that assist in recruiting our executives. In the future, the Compensation Committee expects to gather and analyze publicly available compensation-related data of similarly situated companies in making its recommendations to our Board of Directors.

Our Board of Directors has approved a written charter for the Compensation Committee, which the committee reviews annually and updates as appropriate.

Audit Committee. The Audit Committee currently consists of Messrs. Emanuel (chair), Boosales, and Simmons. Our Board of Directors has determined that each member of the Audit Committee is independent under the listing standards of NASDAQ, and Messrs. Emanuel and Simmons of the Audit Committee are audit committee financial experts, as that term is defined by the Securities and Exchange Commission (the SEC).

Among other things, the Audit Committee selects and retains (subject to our shareholders' approval) the independent auditors, sets the independent auditors' compensation, reviews and evaluates the results and scope of the audit and other services provided by our independent auditors, reviews reports from management, legal counsel, and third parties relating to legal compliance, and establishes procedures for receipt and treatment of confidential, anonymous submissions by our employees of concerns regarding accounting, auditing, and internal controls matters.

Our Board of Directors has approved a written charter for the Audit Committee, which the committee reviews annually and updates as appropriate. During 2007, the Audit Committee held five meetings.

Nominating and Governance Committee. Our Nominating and Governance Committee, which consists of Messrs. Orsatti (chair), Emanuel, and Federico, provides assistance to the Board of Directors in (i) identifying and recommending qualified director nominees; (ii) evaluating the performance and effectiveness of the Board of Directors and its committees; (iii) evaluating and recommending corporate governance guidelines and practices; and (iv) administering our Related Party Transaction Policies and Procedures. The Nominating and Governance Committee may, in its sole discretion, engage director search firms and may consult with outside advisors to assist it in carrying out its duties to the Company. The Nominating and Governance Committee has the sole authority to approve the fees and other retention terms with respect to any such firms. The Board of Directors has determined that each member of the Nominating and Governance Committee is independent under the listing standards of NASDAQ. The Nominating and Governance Committee held five meetings during 2007.

To fulfill its responsibility to recruit and recommend to the full Board of Directors nominees for election as directors, the Nominating and Governance Committee reviews the composition of the full Board of Directors to determine the qualifications and areas of expertise needed to further enhance the composition of the Board of Directors and works with management in attracting candidates with those qualifications. Appropriate criteria for Board membership include the following:

Directors should be individuals of high integrity and independence and substantial accomplishments;

Directors should have demonstrated leadership ability and the ability to exercise sound business judgment; and

The background and experience of directors should be in areas important to our company, such as business, finance, operations, and healthcare industry experience.

The Nominating and Governance Committee considers candidates for directors suggested by our shareholders, provided that the recommendations are made in accordance with the procedures required under applicable law and described in this Proxy Statement under the heading Requirements to Submit Proxy Proposals and Director Nominations. Shareholder nominations that comply with these procedures and that meet the criteria outlined above receive the same consideration that the Nominating and Governance Committee's nominees receive.

Indemnification

We have entered into indemnification agreements with our executive officers and directors. The indemnification agreements provide, among other things, that we will indemnify such officer or director, under the circumstances and to the extent provided for in the agreements, for expenses, damages, judgments, fines and settlements he or she may be required to pay in actions or proceedings which he or she is or may be made a party to by reason of his or her position as a director, officer or other agent of the Company, and otherwise to the fullest extent permitted under applicable law and our bylaws.

Related Party Transactions Policies and Procedures

On July 31, 2007, our Board of Directors adopted written related party transaction policies and procedures (the Policy). For purposes of the Policy, related party transactions include transactions that involve more than \$50,000 in any calendar year in which the Company is a participant and any related party has a direct or indirect interest, and related party includes our officers, directors or 5 percent shareholders and their immediate family members.

Except as described below, the Nominating and Governance Committee (excluding any interested director) (the Committee) will review the material facts of all related party transactions. The Committee will either approve or disapprove of the entry into the related party transaction after taking into account, among other factors it deems appropriate, whether the related party transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party's interest in the transaction. If advance Committee approval of a related party transaction is not feasible, the Committee will consider, and if it deems appropriate, ratify the transaction at the Committee's next regularly scheduled meeting.

The following related party transactions are deemed to be pre-approved or ratified by the Committee (subject to the specific requirements and limitations set forth in the Policy):

employment arrangements with our executive officers;

compensation arrangements with our directors;

transactions with companies affiliated with related parties if the amount involved does not exceed the greater of \$50,000 or 2 percent of the company's total annual revenues;

charitable contributions that do not exceed the lesser of \$50,000 or 2 percent of the charitable organization's total annual receipts;

transactions pursuant to which all of our shareholders receive proportional benefits;

transactions involving competitive bids;

regulated transactions; and

banking transactions.

Under the Policy, the Committee may establish guidelines for our management to follow in its ongoing dealings with related parties. The Committee will review and assess, at least annually, the appropriateness of ongoing related party relationships and will confirm compliance with any guidelines.

DIRECTOR COMPENSATION

Directors who are not our current employees receive \$1,000 to attend each meeting of the Board of Directors and each of its committees, and a quarterly retainer of \$6,000 under our Non-Employee Directors Compensation Plan. Directors who chair the Board of Directors or the following committees receive the following amounts for that service:

| Chair of: | Annual Fee |
|-------------------------------------|------------|
| Board of Directors | \$ 5,000 |
| Audit Committee | \$ 4,000 |
| Compensation Committee | \$ 3,000 |
| Nominating and Governance Committee | \$ 3,000 |

Each non-employee director is granted annually options to purchase 7,500 shares of our common stock as of the date of our Annual Meeting. All options vest ratably over a term of three years, have an exercise price equal to the fair market value of the common stock on the date of grant, and expire ten years after the date of grant.

The following table shows the compensation information for fiscal year 2007 for our non-employee directors:

2007 DIRECTOR COMPENSATION TABLE

| Name (a) | Fees Earned or Paid | Option | All Other | Total (\$) (h) |
|----------------------|------------------------|---------------------------------|--------------------------|-------------------|
| | in Cash (\$) (b) | Awards\$(¹) (d) | Compensation (\$) (g) | |
| James T. Boosales | \$ 54,000 | \$ 28,103 | \$ 4,625(2) | \$ 86,728 |
| James M. Emanuel | \$ 50,000 | \$ 28,103 | \$ 6,628(2) | \$ 84,731 |
| Charles W. Federico | \$ 47,917 | \$ 28,103 | | \$ 76,020 |
| Charles T. Orsatti | \$ 48,000 | \$ 28,103 | | \$ 76,103 |
| Wayne R. Peterson | \$ 21,000 | \$ 28,103 | \$ 248,925(3) | \$ 298,028 |
| N. John Simmons, Jr. | \$ 55,083 | \$ 28,103 | | \$ 83,186 |

- (1) The amounts in column (d) represent the dollar amount recognized for financial statement reporting purposes for fiscal year 2007, in accordance with FAS 123(R). The aggregate number of outstanding option awards held by each non-employee director as of December 31, 2007 is set forth below:

| | |
|----------------------|---------------|
| James T. Boosales | 27,000 shares |
| James M. Emanuel | 61,000 shares |
| Charles W. Federico | 27,500 shares |
| Charles T. Orsatti | 27,000 shares |
| Wayne R. Peterson | 27,000 shares |
| N. John Simmons, Jr. | 53,000 shares |

- (2) This amount represents the dollar value of insurance premiums paid by the Company with respect to health insurance.
(3) This amount includes (i) consulting fees of \$243,000 and (ii) \$5,925 representing the dollar value of insurance premiums paid by the Company with respect to health insurance.

SECURITY OWNERSHIP OF DIRECTORS, OFFICERS, AND PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of common stock as of February 29, 2008 (the Specified Date), with respect to: (i) each of our directors, nominees and the executive officers named in the Summary Compensation Table below, (ii) all of our directors and executive officers, as a group, as defined in the Securities and Exchange Act of 1934 (the Exchange Act), and (iii) each person known by us to own beneficially more than 5% of our common stock.

The number and percentage of shares beneficially owned is determined under rules of the SEC, and the information does not necessarily indicate beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares for which the individual has sole or shared voting power or investment power and also any shares that the individual has the right to acquire by the Specified Date through the exercise of any stock option or other right. Unless otherwise indicated, we believe all persons listed below have sole voting and investment power with respect to all shares beneficially owned by them. A total of 6,470,978 shares of our common stock were issued and outstanding as of the Specified Date.

| Beneficial Owner ⁽¹⁾ | Class of Stock | Shares Beneficially Owned | Percentage of Class Beneficially Owned |
|--|----------------|---------------------------|--|
| James T. Boosales ⁽²⁾ | Common | 803,000 | 12.4 % |
| Wayne R. Peterson ⁽³⁾ | Common | 776,061 | 12.0 % |
| Estate of Lee R. Kemberling | Common | 536,012 | 8.3 % |
| David J. McGuire ⁽⁴⁾ | Common | 105,000 | 1.6 % |
| Wallace D. Ruiz ⁽⁵⁾ | Common | 55,000 | * |
| James M. Emanuel ⁽⁶⁾ | Common | 54,500 | * |
| N. John Simmons, Jr. ⁽⁷⁾ | Common | 40,500 | * |
| Gerald Woodard ⁽⁸⁾ | Common | 25,000 | * |
| Charles T. Orsatti ⁽⁹⁾ | Common | 14,500 | * |
| Charles W. Federico ⁽¹⁰⁾ | Common | 9,166 | * |
| Christopher S. Carlton ⁽¹¹⁾ | | | * |
| Heartland Advisors, Inc. | Common | 831,500 | 12.8 % |
| T. Rowe Price Associates, Inc. ⁽¹²⁾ | Common | 527,349 | 8.1 % |
| MicroCapital LLC | Common | 463,819 | 7.2 % |
| Dimensional Fund Advisors LP | Common | 395,284 | 6.1 % |
| Standard Textile Co., Inc. | Common | 349,667 | 5.4 % |
| All directors and executive officers as a group (10 persons) ⁽¹³⁾ | Common | 1,882,727 | 29.1 % |

* Less than 1%

(1) The business address for James T. Boosales, Wayne R. Peterson, David J. McGuire, Wallace D. Ruiz, James M. Emanuel, N. John Simmons, Jr., Gerald Woodard, Charles T. Orsatti and Charles W. Federico is 12425 Race Track Road, Tampa, Florida 33626. The business address for the Estate of Lee R. Kemberling is 11500 47th Street North, Clearwater, Florida 34622. The business address for Christopher S. Carlton is 9241 Silverthorn Road, Largo, Florida 33777. The business address for Heartland Advisors, Inc. is 790 N. Water Street, Milwaukee, Wisconsin 53202. The business address for T. Rowe Price Associates, Inc. is 100 E. Pratt Street, Baltimore, Maryland 21202. The business address for MicroCapital LLC is 623 Fifth Avenue, New York, New York 10022. The business address for Dimensional Fund Advisors LP is 1299 Ocean Avenue, Santa Monica, California 90401. The business address for Standard Textile Co., Inc. is One Knollcrest Drive, Cincinnati, Ohio 45237.

(2) This amount includes 776,000 shares of common stock owned by the Boosales Family Limited Partnership, a Colorado limited partnership, of which Mr. Boosales and Bonny Boosales, Mr. Boosales' wife, as tenants by the entirety, act as the general partner. This amount also includes 14,500 shares of common stock issuable on exercise of stock options that are held by Mr. Boosales and currently

- exercisable. Mr. Boosales has shared voting and investment power with respect to 776,000 shares of common stock held by the Boosales Limited Partnership.
- (3) This amount includes 42,608 shares of common stock owned by the Wayne R. Peterson Grantor Retained Annuity Trust, of which Mr. Peterson is trustee, 42,609 shares of common stock owned by the Theresa A. Peterson Grantor Retained Annuity Trust, of which Mrs. Peterson, Mr. Peterson's wife, is trustee, 31,044 shares of common stock owned by Mr. and Mrs. Peterson as tenants by the entirety, and 645,300 shares of common stock owned by Peterson Partners, Ltd., a Colorado limited partnership, of which Peterson Holdings, Inc., a Colorado corporation, is the general partner. Mr. and Mrs. Peterson jointly own all of the issued and outstanding voting stock of Peterson Holdings, Inc. This amount also includes 14,500 shares of common stock issuable on exercise stock options that are held by Mr. Peterson and currently exercisable. Mr. Peterson has shared voting and investment power with respect to the following shares of common stock: 42,609 shares owned by the Theresa A. Peterson Grantor Retained Annuity Trust, 31,044 shares owned by Mr. and Mrs. Peterson as tenants by the entirety, and 645,300 shares owned by Peterson Partners, Ltd. All of the shares of common stock beneficially owned by Mr. Peterson have been pledged as security for a margin account maintained with a brokerage firm.
- (4) Includes 85,000 shares of common stock issuable on exercise of stock options that are currently exercisable or will become exercisable within 60 days and 12,000 shares of restricted stock. Mr. McGuire has the right to vote, but not the right to dispose of, these shares of restricted stock.
- (5) Includes 30,000 shares of common stock issuable on exercise of stock options that are currently exercisable or will become exercisable within 60 days and 15,000 shares of restricted stock. Mr. Ruiz has the right to vote, but not the right to dispose of, these shares of restricted stock.
- (6) Includes 44,500 shares of common stock issuable on exercise of stock options that are currently exercisable or will become exercisable within 60 days.
- (7) Includes 40,500 shares of common stock issuable on exercise of stock options that are currently exercisable or will become exercisable within 60 days.
- (8) Mr. Woodard became our Chief Executive Officer on December 31, 2007. This amount represents 25,000 shares of restricted stock. Mr. Woodard has the right to vote, but not the right to dispose of, these shares of restricted stock.
- (9) Includes 14,500 shares of common stock issuable on exercise of stock options that are currently exercisable or will become exercisable within 60 days.
- (10) Includes 9,166 shares of common stock issuable on exercise of stock options that are currently exercisable or will become exercisable within 60 days.
- (11) Mr. Carlton resigned as our President and Chief Executive Officer as of February 5, 2007.
- (12) These securities are owned by various individuals and institutional investors including the T. Rowe Price Small Cap Value Fund (which owns 479,349 shares, representing 7.4% of the shares outstanding), which T. Rowe Price Associates, Inc. (Price Associates) serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities and Exchange Act of 1934, Price Associates is deemed to beneficially own these securities, although Price Associates disclaims that it beneficially owns those securities.
- (13) Includes shares beneficially owned by Messrs. Boosales, Peterson, McGuire, Ruiz, Emanuel, Simmons, Woodard, Orsatti, Federico and Carlton.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors and persons who own ten percent or more of a registered class of our equity securities to file reports of ownership on Form 3 and changes in ownership on Form 4 or Form 5 with the SEC. Those officers, directors and ten percent or more shareholders are also required by SEC rules to furnish us with copies of all such forms that they file.

Based solely on our review of the copies of such forms received by us, we believe that during 2007, all Section 16(a) filing requirements applicable to our officers, directors, and ten percent or more shareholders were satisfied.

Compensation Committee Interlocks and Insider Participation

Our Compensation Committee is currently composed of Messrs. Boosales (chair), Federico, and Orsatti. A member of the Compensation Committee, James T. Boosales, was formerly an officer and an employee of the Company. No interlocking relationship exists between our Board of Directors or Compensation Committee and the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past.

PROPOSAL NO. 2**RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS**

The Audit Committee appointed the firm of Grant Thornton LLP (Grant Thornton) to audit our financial statements for the fiscal year ending December 28, 2008. A representative of Grant Thornton will be present at the Annual Meeting, have the opportunity to make a statement, and be available to respond to appropriate questions.

Fees Paid to Independent Auditors

The following table shows fees for services provided by Grant Thornton for fiscal years 2007 and 2006:

| | 2007 | 2006 |
|-----------------------------------|-------------------|-------------------|
| Audit Fees ⁽¹⁾ | \$ 327,410 | \$ 282,650 |
| Audit-Related Fees ⁽²⁾ | | |
| Tax Fees | | |
| All Other Fees ⁽³⁾ | 4,289 | |
| Total | \$ 331,699 | \$ 282,650 |

- (1) Audit Fees consist of fees for professional services rendered by Grant Thornton for the fiscal years ended 2007 and 2006 related to the audits of our financial statements and reviews of our interim financial statements included in our quarterly reports.
- (2) Audit-Related Fees consist of fees for professional services rendered by Grant Thornton for the fiscal years ended 2007 and 2006 that are reasonably related to the performance of the audit or review and are not included in Audit Fees, including fees billed for Grant Thornton's review of our cycle counting procedures.
- (3) All Other Fees consist of fees for professional services rendered by Grant Thornton that relate to state sales and use tax matters. The Audit Committee approves any non-audit services, including all services provided in exchange for Audit-Related Fees, Tax Fees and All Other Fees, as such terms are described above.

Required Vote

The Audit Committee of the Board of Directors conditioned its appointment of our independent auditors upon the receipt of the affirmative vote of a majority of the shares represented, in person or by proxy, and voting at the Annual Meeting. In the event that the shareholders do not approve the selection of Grant Thornton, the appointment of the independent auditors will be reconsidered by the Audit Committee of the Board of Directors.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THIS PROPOSAL.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee of the Board of Directors reviews the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls.

In this context, we met and held discussions with management and the independent auditors. Management represented to us that the Company's financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the financial statements with management and the independent auditors. We discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as adopted by the Public Accounting Oversight Board in Rule 3200T.

In addition, we received from the independent auditors the written disclosures and the letter relating to the independent auditors' independence, as required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as adopted by the Public Accounting Oversight Board in Rule 3600T, and we discussed with the independent auditors their independence from the Company and its management.

We discussed with the Company's independent auditors the overall scope and plan for their audit. We met with the independent auditors, with and without management present, to discuss the results of their examinations, the evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, we recommended to the Board of Directors, and the Board of Directors has approved, including the audited financial statements in the Company's Annual Report on Form 10-K for the year ended December 30, 2007, for filing with the SEC.

The Audit Committee and the Board of Directors also have recommended, subject to shareholder approval, the selection of the Company's independent auditors for the year ended December 28, 2008 - see Proposal No. 2.

Submitted by the Audit Committee of the

Board of Directors:

James M. Emanuel (chair)
James T. Boosales
N. John Simmons, Jr.

EXECUTIVE OFFICER COMPENSATION

Compensation Discussion and Analysis

Overview

The Compensation Committee of our Board of Directors (the Compensation Committee) is responsible for establishing and implementing executive compensation arrangements designed to recruit and retain executives. The Compensation Committee periodically reviews these arrangements for consistency with our compensation philosophy and objectives and with the goal of making them more effective.

Philosophy and Objectives of Executive Compensation

In establishing executive compensation arrangements, we primarily seek to align our executives' incentives with the interests of our shareholders in both the short and long term. We place a relatively heavy emphasis on equity compensation as a percentage of total compensation to establish long-term incentives, although we do not have any rule for establishing the relative amounts of each component. We also structure our annual incentive cash compensation to motivate our executives to achieve business and individual goals.

Setting Compensation

The Compensation Committee determines cash compensation for our executive officers with the benefit of a review by the Board of Directors and input from the Chief Executive Officer regarding compensation of other officers. The Compensation Committee establishes objectives for annual performance-based cash incentive compensation for executives. The Board of Directors approves equity awards for our executive officers with the benefit of recommendations from the Compensation Committee.

The Board of Directors, including the Compensation Committee, has relied on its members' extensive general business and industry-specific knowledge and experience in determining executive compensation. In establishing compensation for newly engaged executives, the Board of Directors considered recommendations of the Compensation Committee and the executive search firms that assisted in recruiting those executives. Historically, the Board of Directors has not retained a compensation consultant. The Compensation Committee expects to gather and analyze publicly available compensation-related data of similarly-sized companies operating in the same industries and regions, including local competitors, in making its recommendations to the Board of Directors regarding future compensation decisions.

2007 Executive Compensation Components

For the 2007 fiscal year, the principal components of executive compensation for our executive officers were:

base salary

performance-based cash incentive compensation

long-term equity incentive compensation, and

retirement and other benefits.

Base Salary: We establish base salaries for each of our executive officers based on the executive officer's position, responsibilities, experience, business judgment, and role in developing and implementing our overall business strategy, without applying a specific formula to weigh each of these factors. We review base salary levels annually and adjust them from time to time for market changes, promotions, or other changes in job responsibilities. Generally, we believe base salaries paid to executive officers should be competitive with salaries paid to executive officers with similar positions and responsibilities at similar companies. The Compensation

Committee periodically reviews regional and industry-specific compensation statistics, but it has not benchmarked our executives' compensation levels against levels of any other companies or groups of companies.

In 2007 and 2008, the Compensation Committee adjusted the base salary of Mr. Ruiz from \$262,500 to \$270,375 and \$270,375 to \$278,486, respectively, based on cost-of-living increases. In addition, the Compensation Committee adjusted Mr. McGuire's 2008 base salary from \$194,875 to \$220,000 in connection with Mr. McGuire's promotion from Senior Vice President of Strategic Sourcing to Senior Vice President of Sales effective as of March 3, 2008. Mr. Carlton's base salary was not adjusted before his resignation in February 2007.

Performance-Based Cash Compensation: We believe that approximately 70% of our executive officers' annual performance-based cash compensation should be contingent on the Company's achieving quantitative financial performance targets, such as revenues, gross margin, profitability, and cash flow, and approximately 30% of the executive's compensation should be contingent on satisfying individual qualitative performance objectives established for the executive officer. The Compensation Committee establishes annual financial targets for our executives. The Compensation Committee evaluates performance of the Company and each executive officer and awards incentives in the first calendar quarter following the end of the fiscal year.

The Compensation Committee determined in the first quarter of 2008 that the Company did not meet its 2007 financial performance targets, which included management's budgeted total revenues of \$98.1 million and loss before income taxes of \$0.1 million. Actual total revenues were \$94.2 million and the actual loss before income taxes was \$5.0 million. The Compensation Committee determined that Mr. Ruiz achieved certain individual non-financial business objectives during 2007, including improvements in department staffing and successful implementation of Sarbanes-Oxley Act compliance measures. The Compensation Committee recommended and the Board of Directors approved a cash payment to Mr. Ruiz of incentive compensation of \$13,000, based on his achievement of these objectives during 2007.

Mr. McGuire received a lump sum payment of \$10,000 on February 5, 2007, which is the date that the Company accepted Mr. Carlton's resignation, to induce Mr. McGuire to assume increased responsibilities as Chairman of our Management Committee. Mr. McGuire led our Management Committee, which effectively managed our day-to-day operations until the appointment of Mr. Woodard as our Chief Executive Officer on December 31, 2007. In addition, the Compensation Committee determined that Mr. McGuire achieved certain individual non-financial business objectives during 2007, including his successful leadership of our Management Committee, stabilization of our sales force and improvements in customer relationships. On January 22, 2008, the Compensation Committee recommended and the Board of Directors approved a cash payment to Mr. McGuire of incentive compensation of \$20,000 based on his achievement of these objectives during 2007.

In accordance with his separation agreement, Mr. Carlton received a lump sum payment in the amount of \$36,000 for his performance-based cash incentive compensation for 2006 and the period January 1 through February 5, 2007. This lump sum payment was primarily attributable to Mr. Carlton's achievement of certain individual non-financial business objectives during 2006.

Long-Term Stock Incentives: Our equity plans provide for grants to employees of stock options and restricted stock. We design our grants to executives to align a significant portion of our executive compensation with the long-term interests of our shareholders by providing an incentive that focuses attention on managing the Company from the perspective of an owner with an equity stake in our business. Awarded stock options have an exercise price equal to the fair market value of our common stock on the grant date. These stock options typically vest ratably over five years and expire ten years after the grant date. We believe stock option awards encourage retention of our key employees and that vesting requirements foster loyalty.

The Compensation Committee awarded Mr. McGuire options to purchase 20,000 shares of our common stock upon his appointment as Chairman of our Management Committee. As more fully described above, the

Compensation Committee determined that Mr. McGuire achieved certain individual non-financial business objectives during 2007. As a result, the Compensation Committee recommended and the Board of Directors approved an award of 30,000 stock options to Mr. McGuire on January 22, 2008, to be issued on February 1, 2008. The award has a term of ten years and vests ratably over five years.

We have adopted a policy pursuant to which the Compensation Committee will review and recommend all future stock option grants to the full Board of Directors for approval by the end of April each year. The option grants will be approved by the Board of Directors by the end of April each year and issued on the second full trading day after the Company's quarterly earnings release for our first quarter. In the case of a new hire or promotion, the Compensation Committee will also review and recommend any option grants to the Board of Directors for approval. The grant date of these options will be the first trading day of the month following the date of hire or promotion.

Retirement and Other Benefits: Our executive officers participate in our 401(k) plan and other benefits that are generally available to employees. We do not provide retirement or other benefit plans established especially for executives or other key employees, except for the equity and incentive compensation arrangements described above.

Severance and Change in Control Arrangements

Mr. Ruiz and Mr. McGuire are entitled to receive portions of their annual base salaries and prorated bonuses as severance if they are terminated without cause. We offered these terms to Mr. Ruiz as part of his initial recruitment package. We offered these terms to provide a sense of security for, and to help retain, Mr. McGuire in connection with the appointment of Mr. Carlton as our President and Chief Executive Officer in February 2005. Upon Mr. Carlton's resignation in February 2007, we paid severance payments substantially in accordance with the severance provisions set forth in Mr. Carlton's employment agreement, which was entered into at the commencement of Mr. Carlton's employment.

Our 1998 Stock Option Plan and 2004 Stock Compensation Plan provide that all grants under these plans vest in full on a change in control of the Company. In addition to their role in facilitating recruitment, we believe that these severance and change in control arrangements encourage retention.

We believe that these severance and change in control arrangements reflect market levels for comparable executives and are important to effectively recruit and retain key executives. For a more detailed discussion of these arrangements, see *Employment Agreements, Termination of Employment and Change-in-Control Arrangements* below.

Tax and Accounting Implications

Deductibility of Executive Compensation: The Company believes that compensation paid under its compensation plans will be fully deductible for federal income tax purposes under current rules.

Accounting for Stock-Based Compensation: Beginning on January 1, 2006, the Company began accounting for stock-based payments, including its stock option grants, in accordance with requirements of FASB Statement 123(R).

Summary of Executive Compensation

The following table shows the compensation information for fiscal year 2007 for our named executive officers:

2007 SUMMARY COMPENSATION TABLE

| Name and Principal Position (a) | Year (b) | Salary (\$) (c) | Bonus (d) | Stock Awards (\$) ⁽¹⁾ (e) | Option Awards (\$) ⁽¹⁾ (f) | Non- Equity | All Other | Total (\$) (j) |
|---|-------------|--------------------|--------------|--|---|---|------------------------------------|-------------------|
| | | | | | | Incentive Plan Compensation ⁽²⁾ (g) | Compensation ⁽³⁾ (i) | |
| Christopher S. Carlton, President and Chief Executive Officer ⁽³⁾ | 2007 | \$ 40,385 | -0- | -0- | -0- | \$ 36,000 | \$ 363,196 ⁽⁴⁾ | \$ 439,581 |
| Wallace D. Ruiz, Sr. Vice President and Chief Financial Officer ⁽⁵⁾ | 2007 | \$ 268,558 | -0- | -0- | \$ 19,444 | \$ 13,000 | \$ 8,545 ⁽⁴⁾ | \$ 309,547 |
| David J. McGuire, Senior Vice President of Sales ^{(5) (6)} | 2007 | \$ 193,568 | \$ 10,000 | -0- | \$ 56,611 | \$ 20,000 | \$ 8,029 | \$ 288,208 |

(1) The amounts in columns (e) and (f) reflect the dollar amount recognized for financial statement reporting purposes for fiscal year 2007, in accordance with FAS 123(R). Our assumptions used in calculating these amounts are included in footnote K to the Company's audited financial statements for the 2007 fiscal year included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 26, 2008.

(2) The amounts in column (g) reflect the cash awards to the named individuals under our management incentive plan, which is described in further detail on page 15 under the heading *Performance-Based Cash Compensation*.

(3) Mr. Carlton was our President and Chief Executive Officer during 2007 until he resigned as of February 5, 2007. Mr. Carlton was paid \$350,000 over the 12-month period following his termination of employment in accordance with his separation agreement. Mr. Carlton forfeited 28,000 shares of restricted stock and 60,000 options as a result of his resignation. See Footnote J of Item 8. *Financial Statements and Supplemental Data in the Annual Report on Form 10-K for the year ended December 30, 2007*.

(4) This represents the sum of the following amounts payable under Mr. Carlton's separation agreement: \$350,000 in cash paid to Mr. Carlton and \$13,196, which is the dollar value of insurance premiums paid by the Company with respect to health insurance.

(5) From the date our former President and Chief Executive Officer, Christopher Carlton, resigned on February 5, 2007, until the appointment on December 31, 2007 of our new Chief Executive Officer, Mr. Woodard, our day-to-day operations were managed by a Management Committee comprised of Mr. Ruiz and Mr. McGuire. Mr. McGuire served as Chairman of the Management Committee. The Management Committee managed the Company under the oversight of an Executive Committee of the Board of Directors comprised of N. John Simmons, Jr. and James T. Boosales.

(6) Mr. McGuire served as our Senior Vice President of Strategic Sourcing from January 2006 until his promotion to Senior Vice President of Sales on March 3, 2008.

Employment Agreements, Termination of Employment and Change-in-Control Arrangements*Employment Agreements*

We have employment agreements with Gerald Woodard, our Chief Executive Officer, and Wallace D. Ruiz, our Senior Vice President and Chief Financial Officer. We have not entered into an employment agreement with David J. McGuire, our Senior Vice President of Sales.

Mr. Woodard's employment agreement provides for annual base salary of \$375,000 in 2008 and a signing bonus of \$100,000. In addition, Mr. Woodard is entitled to participate in our management incentive plan. In connection with the commencement of his employment, Mr. Woodard has received inducement grants of 150,000 stock options, which vest in three equal annual installments, and 25,000 shares of restricted stock, which vest in full upon the earlier of three years or termination for any reason other than cause, death or disability.

Mr. Ruiz's employment agreement provides for annual base salaries of \$270,375 and \$278,486 in 2007 and 2008, respectively, and participation in our management incentive plan.

Termination of Employment

According to the terms of their respective employment agreements, Mr. Woodard and Mr. Ruiz are entitled to receive upon their termination for any reason other than for cause, death or disability, their respective annual base

salary and health insurance benefits for twelve months and nine months, respectively, and a pro-rated cash award under our management incentive plan (as determined by our Board of Directors acting in good faith). The base salary component of the severance is payable in accordance with the Company's then-current pay practices over the severance period following a termination and the pro-rated cash award is payable as a lump sum at such time that the executive officer would have been entitled to receive any earned cash award for the year in which he is terminated if he had been employed on the last day of year in which his employment is terminated. For purposes of each of Mr. Woodard's and Mr. Ruiz's employment agreements, cause generally includes the executive's indictment, conviction or plea of no contest for a felony, violation of the employment agreement, failure to perform his duties, failure to cooperate with a governmental investigation, insubordination, incompetence, misconduct, unethical conduct or failure to comply with our policies. Under their respective employment agreements, Mr. Woodard and Mr. Ruiz are prohibited from competing with us during the two-year period following termination of their employment, and the foregoing severance is conditioned upon their compliance with such covenant not to compete with the Company and the execution of a release in favor of the Company.

We have a retention agreement with Mr. McGuire, under which the Company will continue to pay Mr. McGuire his base salary and health insurance benefits for a period 180 days following termination of employment for any reason other than cause, death or disability. For purposes of Mr. McGuire's retention agreement, cause generally includes Mr. McGuire being charged with a felony, disclosure of our trade secrets or other confidential information, or misconduct, insubordination or violation of Company policies. Mr. McGuire also entered into a non-competition and confidentiality agreement with the Company, pursuant to which Mr. McGuire is prohibited from competing with the Company during the one-year period following termination of his employment, and the foregoing severance is conditioned upon Mr. McGuire's compliance with such competition and confidentiality agreement and his execution of a release in favor of the Company.

On February 5, 2007, Christopher Carlton resigned from his positions as President and Chief Executive Officer. In connection with Mr. Carlton's resignation, the Company entered into a separation agreement with Mr. Carlton setting forth the terms of his resignation, including separation benefits and obligations. Pursuant to the terms of Mr. Carlton's separation agreement, the Company paid to Mr. Carlton \$350,000 and premiums to fund Mr. Carlton's participation in certain group medical and dental programs over the twelve-month period following his termination of employment. The Company also paid to Mr. Carlton a lump sum payment of \$36,000 for his management incentive award for 2006 and the prorated period from January 1, 2007 through February 5, 2007. The separation agreement includes a general release by Mr. Carlton in favor of the Company and provides that Mr. Carlton will comply with the confidentiality and non-compete obligations set forth in his employment agreement, which prohibit Mr. Carlton from competing with the Company during the two-year period following his termination.

If Mr. Ruiz had been terminated for any reason other than for cause, death or disability on December 30, 2007, which was the last business day of the Company's 2007 fiscal year, Mr. Ruiz would have received the following severance benefits in accordance with the procedures outlined above: nine months' base salary equal to \$202,781, a cash award under our management incentive plan equal to \$13,000 and payment of health insurance premiums by the Company in the aggregate amount of \$6,022 (which represents 75 percent of the annual health insurance premiums).

If Mr. McGuire had been terminated for any reason other than for cause, death or disability on December 30, 2007, Mr. McGuire would have received the following severance benefits pursuant to his retention agreement: 180 days' base salary equal to \$97,438, a cash award under our management incentive bonus plan equal to \$20,000 and payment of health insurance premiums by the Company in the aggregate amount of \$4,014 (which represents 50 percent of the annual health insurance premiums).

Change in Control Arrangements and Termination Due to Death

Our 1998 Stock Option Plan and 2004 Stock Compensation Plan provide that all grants under these plans vest on a change in control of the Company and grants of restricted stock vest upon the recipient's death. If a

change in control occurs, the Company may elect to cancel participants' options and instead pay to them the difference between the exercise price of such options and the fair market value of the shares issuable on the exercise thereof. For these purposes, a change in control generally occurs when:

our shareholders approve a liquidation of the Company, a sale of all or substantially all of the Company's assets or certain mergers or consolidations of the Company; or

if during any two consecutive years, individuals who at the beginning of the period constitute our Board of Directors cease for any reason to constitute at least a majority of our Board of Directors, except for individuals whose election or nomination for election was previously approved by at least two-thirds of the directors who were directors at the beginning of the period or whose nomination for election was previously so approved.

If a change in control occurred on December 30, 2007, which was the last business day of the Company's 2007 fiscal year, 67,500 options and 20,000 shares of restricted stock held by Mr. Ruiz would have vested, resulting in an aggregate dollar amount realizable by Mr. Ruiz equal to \$90,000, and 65,000 options and 16,000 shares of restricted stock held by Mr. McGuire would have vested, resulting in an aggregate dollar amount realizable by Mr. McGuire equal to \$72,000. For purposes of the foregoing calculation, the aggregate dollar value realizable with respect to option shares that vest upon a change in control is derived by multiplying (A) the number of securities underlying such options by (B) the difference between (i) the closing price of the Company's common stock on the date of change in control and (ii) the per share option exercise price. The aggregate dollar value realizable with respect to restricted stock that vests upon a change in control or death is determined by multiplying the number of shares of such stock by the closing price of the Company's common stock on the date of change in control or termination due to death.

2007 GRANTS OF PLAN-BASED AWARDS

| Name | Grant Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾ | | | All Other Stock Awards: Number of Shares of Stock or Units (#) | Exercise or Base Price of Option Awards (\$/sh) | Grant Date Fair Value of Stock and Option Awards |
|------------------------|------------|--|-------------|--------------|--|---|--|
| | | Threshold (\$) | Target (\$) | Maximum (\$) | | | |
| (a) | (b) | (c) | (d) | (e) | (i) | (k) | (l) |
| Christopher S. Carlton | | | | | | | |
| Wallace D. Ruiz | 3/14/07 | | \$ 105,000 | | 20,000 | \$ 4.60 | \$ 44,476 |
| | 7/31/07 | | | | 7,500 | \$ 4.85 | \$ 17,055 |
| David J. McGuire | 2/5/07 | | \$ 105,000 | | 20,000 | \$ 5.84 | \$ 73,606 |
| | 3/14/07 | | | | 25,000 | \$ 4.60 | \$ 72,473 |

(1) Our management incentive plan is described in further detail on page 15 under the heading *Performance-Based Cash Compensation*.

2007 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

| Name | Option Awards ⁽¹⁾ | | | | Stock Awards ⁽¹⁾ | |
|------------------------|------------------------------|---------------|------------|----------|-----------------------------|-----------|
| | Number | Number of | Option | Option | Number | Market |
| | of | Securities | | | of | Value of |
| | Securities | Underlying | Securities | Units | Shares | or Units |
| Underlying | Options | Underlying | That | or Units | of Stock | |
| Unexercised | Options | Unexercised | Have | That | That | |
| Options | Exercise | Options | Not | Have | Not | |
| (#) | Price | (#) | Not | Not | Not | |
| Exercisable | (\$) | Unexercisable | Vested | Vested | Vested | |
| (b) | (e) | (c) | (#) | (#) | (\$) ⁽²⁾ | |
| (a) | (f) | (g) | (h) | (h) | (h) | |
| Christopher S. Carlton | | | - | | | |
| Wallace D. Ruiz | 30,000 | 45,000 | \$ 5.28 | 7/1/15 | 20,000 | \$ 90,000 |
| | -0- | 20,000 | \$ 4.60 | 3/14/17 | | |
| | -0- | 7,500 | \$ 4.85 | 7/31/17 | | |
| David J. McGuire | 12,426 | -0- | \$ 18.00 | 5/4/08 | 16,000 | \$ 72,000 |
| | 2,574 | -0- | \$ 18.00 | 5/4/08 | | |
| | 5,163 | -0- | \$ 11.88 | 1/4/09 | | |
| | 4,837 | -0- | \$ 11.88 | 1/4/09 | | |
| | 12,000 | -0- | \$ 5.75 | 5/10/10 | | |
| | 8,000 | -0- | \$ 5.75 | 5/10/10 | | |
| | 3,065 | -0- | \$ 19.52 | 4/2/11 | | |
| | 1,935 | -0- | \$ 19.52 | 4/2/11 | | |
| | 8,000 | -0- | \$ 16.23 | 1/2/12 | | |
| | 2,000 | -0- | \$ 16.23 | 1/2/12 | | |
| | 3,000 | 2,000 | \$ 6.55 | 3/4/14 | | |
| | 6,000 | 9,000 | \$ 5.22 | 1/5/15 | | |
| | 6,000 | 9,000 | \$ 5.12 | 2/2/15 | | |
| | -0- | 20,000 | \$ 5.84 | 2/5/17 | | |
| | -0- | 25,000 | \$ 4.60 | 3/14/17 | | |

(1) All above option and stock awards vest in five equal annual installments beginning on the first anniversary of the grant date.

(2) The market value is determined based upon the closing stock price on December 30, 2007 of \$4.50 multiplied by the number of shares that have not vested in column (g).

2007 OPTIONS EXERCISES AND STOCK VESTED

| Name | Stock Awards | |
|------------------------|---------------------------|---------------------------|
| | Number of | Value |
| | Shares | Realized |
| | Acquired | on Vesting ⁽¹⁾ |
| on Vesting | on Vesting ⁽¹⁾ | |
| (#) | (\$) | |
| (d) | (e) | |
| (a) | | |
| Christopher S. Carlton | 7,000 | \$ 39,550 |
| Wallace D. Ruiz | 5,000 | \$ 28,250 |
| David J. McGuire | 4,000 | \$ 22,600 |

(1) The aggregate dollar amount realized upon vesting is determined by multiplying the number of shares of stock that vested in 2007 by the market value of the underlying shares on the applicable vesting date.

Equity Compensation Plan Information

The following table sets forth certain information relating to our equity compensation plans as of December 30, 2007:

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans |
|---|---|---|--|
| <i>Equity compensation plans approved by security holders:</i> | | | |
| 1995 Stock Option Plan | 117,700 | \$ 11.18 | |
| 1996 Non-Employee Director Plan | 120,000 | \$ 11.74 | |
| 1998 Stock Option Plan | 371,900 | \$ 6.41 | 146,727 |
| 2004 Stock Compensation Plan | 274,000 | \$ 4.99 | 655,200 |
| Total | 883,600 | \$ 7.33 | 801,927 |
| <i>Equity compensation plans not approved by security holders:</i> | | | |
| None | | | |
| Total | 883,600 | \$ 7.33 | 801,927 |

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION COMMITTEE

James T. Boosales (chair)

Charles W. Federico

Charles T. Orsatti

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We have a procurement agreement with Standard Textile Co., Inc. under which we agree to purchase approximately 90% of our reusable surgical products from Standard Textile through 2008. Standard Textile is one of our shareholders see Security Ownership of Directors, Officers, and Principal Shareholders. We are not bound to purchase any minimum quantity of products under these agreements; however, we expect to make payments under the contracts to fulfill our requirements. During 2007, we purchased products from Standard Textile for approximately \$3.0 million. Our current contract with Standard Textile expires in August 2008. We are in the early stages of a formal proposal process with several vendors, including Standard Textile, with respect to our future procurement arrangements.

Effective March 20, 2006, we entered into a Consulting Agreement with Wayne R. Peterson, a director and shareholder of the Company, to provide advice on matters relating to operations and supply chain management. Pursuant to the Consulting Agreement, which is terminable at will by either party, Mr. Peterson receives \$1,000 per full day of service. As of March 13, 2008, Mr. Peterson has earned \$435,000 under the agreement. We anticipate that the Consulting Agreement will be continued during 2008 under the same terms and conditions.

REQUIREMENTS TO SUBMIT PROXY PROPOSALS

AND DIRECTOR NOMINATIONS

Pursuant to Rule 14a-8 under the Exchange Act, to be eligible for inclusion in the Company's proxy statement for the 2009 Annual Meeting, any shareholder proposal must be submitted (along with the information set forth below) in writing to the Secretary of the Company at our principal executive offices at 12425 Race Track Road, Tampa, Florida 33626 before December 15, 2008. Each proposal shall include:

the shareholder's name and address;

the number of shares of common stock that the shareholder holds of record or beneficially;

the dates upon which the shares of common stock were acquired;

documentary support for a claim of beneficial ownership; and

a statement of willingness to hold such common stock through the date of the 2009 Annual Meeting of Shareholders.

In order for a shareholder proposal made outside of Rule 14a-8 under the Exchange Act to be considered timely within the meaning of Rule 14a-4(c) under the Exchange Act (although not included in the Company's

proxy statement), a shareholder must follow certain procedures to nominate persons for election as directors or to introduce an item of business at an Annual Meeting of Shareholders. These procedures provide that nominations for director nominees and/or an item of business to be introduced at an Annual Meeting of Shareholders must be submitted in writing to the Secretary of the Company at our principal executive offices. We must receive the notice of your intention to introduce a nomination or to propose an item of business at our 2009 Annual Meeting not later than February 26, 2009 and not earlier than January 12, 2009. If we do not receive notice within such timeframe, or if we meet other requirements of the SEC rules, the persons named as proxies in the proxy materials relating to that meeting will use their discretion in voting the proxies when these matters are raised at the meeting.

In addition to the foregoing requirements, all shareholder proposals will be subject to the requirements of the proxy rules adopted under the Exchange Act and the Company's Restated Articles of Incorporation, the Company's Amended and Restated Bylaws and Florida law.

Any nomination of a director must contain the following information about the nominee:

name, age, and business and residence addresses;

principal occupation or employment;

the number of shares of common stock beneficially owned by the nominee;

the information that would be required under the rules of the SEC in a Proxy Statement soliciting proxies for the election of such nominee as a director; and

a signed consent of the nominee to serve as a director of the Company, if elected.

Notice of a proposed item of business must include the following information:

a brief description of the substance of, and the reasons for conducting, such business at the Annual Meeting;

any material interest of the shareholder in such business; and

the same information required above with respect to any other shareholder that to the knowledge of the shareholder proposing the business, supports the proposal.

In addition, a shareholder nominating a director or proposing an item of business must provide the following information: (a) the shareholder's name and address, as they appear on our books and (b) the class and number of shares of our stock that are beneficially owned by the shareholder.

OTHER MATTERS

We know of no other matters to be submitted to the meeting. If any other matters properly come before the meeting, the persons named in the enclosed proxy card intend to vote the shares that they represent as we recommend.

It is important that your shares be represented at the meeting, regardless of the number of shares that you hold. You are, therefore, urged to execute the accompanying proxy card and return it in the enclosed envelope.

THE BOARD OF DIRECTORS

Tampa, Florida

April 4, 2008

PLEASE MARK VOTES
X
AS IN THIS EXAMPLE

REVOCABLE PROXY
SRI/SURGICAL EXPRESS, INC.

2008 ANNUAL MEETING OF SHAREHOLDERS OF
SRI/SURGICAL EXPRESS, INC.
PROXY SOLICITED ON BEHALF OF THE
BOARD OF DIRECTORS

1. Proposal No. 1

Election of directors for terms expiring in 2011:

James M. Emanuel

Charles W. Federico

Gerald Woodard

For With- For All
hold Except

..

The undersigned appoints Gerald Woodard and Wallace D. Ruiz, and each of them, as proxies with full power of substitution, to represent and to vote all shares of voting Common Stock of SRI/SURGICAL EXPRESS, INC., a Florida corporation (the Company), which the undersigned is entitled to vote at the Company's Annual Meeting of Shareholders to be held on Thursday, May 22, 2008, at 10:00 a.m., EST, and any adjournment of the Annual Meeting, hereby revoking all proxies previously given:

INSTRUCTION: To withhold authority to vote for any individual nominee, mark For All Except and write that nominee's name in the space provided below.

2. Proposal No. 2

Ratification of Appointment of Grant Thornton as the Company's independent auditors for 2008:

3. In their discretion, the persons named as proxies are authorized to vote on other business that properly comes before the Annual Meeting.

For Against Abstain
..

Please be sure to sign and date **Date**
this Proxy in the box below.

This proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder. **If no direction is made, this proxy will be voted FOR each of the proposals and, at the discretion of the persons named as proxies, upon such other business that properly comes before the Annual Meeting.**

PLEASE CHECK BOX IF YOU PLAN TO ATTEND THE MEETING. **è ..**

Shareholder sign above Co-holder (if any) sign above

+

+

é Detach above card, sign, date and mail in postage paid envelope provided. é
SRI/SURGICAL EXPRESS, INC.

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Please sign exactly as your name appears on this proxy. If shares are owned by more than one person, all owners should sign. Persons signing as executors, administrators, trustees or in similar capacities should so indicate. If a corporation, please sign full corporate name by the president or other authorized officer. If a partnership, please sign in partnership name by authorized person.

PLEASE COMPLETE, SIGN, DATE, AND RETURN THIS PROXY CARD PROMPTLY

USING THE ENCLOSED POSTAGE PAID ENVELOPE.

IF YOUR ADDRESS HAS CHANGED, PLEASE CORRECT THE ADDRESS IN THE SPACE PROVIDED BELOW AND RETURN THIS PORTION WITH THE PROXY IN THE ENVELOPE PROVIDED.